

OFFICE OF THE GOVERNOR

STATE OF MONTANA

JUDY MARTZ
GOVERNOR



PO Box 200801
HELENA, MONTANA 59620-0801

TO: Senator Linda Nelson, Chairperson
Education and Local Government Interim Committee

FROM: Governor Judy Martz

RE: House Bill 625 -- Preliminary Report

DATE: January 4, 2002

Madam Chair and Members of the Committee:

As passed by the 57th Legislature, House Bill 625 requires that the Governor and the State Superintendent of Public Instruction conduct a "study of funding for K-12 public schools and related issues". The legislation then contemplates the transmission of a "preliminary report" by me to the Interim Committee on the "findings and recommendations of the study". Accordingly, this is the preliminary report called for under HB 625.

A. PROCESS -- BACKGROUND

As you know, I signed an Executive Order establishing the "K-12 Public School Funding Study Advisory Council" for the purpose of assisting my office in conducting the study called for under HB 625. Over the course of the last 5 months, that Advisory Council has engaged in a study of the items set out in the bill. The Council has just now completed that process and has provided me with a report of their study activities, together with a set of recommendations. I've attached a copy of that report for your review, consideration and solicitation of further comment and discussion.

B. FURTHER PROCESS

Under HB 625, the Interim Committee is tasked with conducting hearings and taking public comment on this preliminary report. At the conclusion of that process, the Interim Committee is required to provide my office with a summary of those hearings and recommendations for changes to the preliminary report. The Committee may, however, also develop any other recommendations on school funding that it deems appropriate, whether or not they flow from this preliminary report or the hearing process associated with the report.

Upon receipt of the summary and recommendations from the Interim Committee in August, I will review that information and issue a final report. As outlined in HB 625, both my office and the Interim Committee may then prepare legislation for consideration by the 58th Legislature.

C. *ADVISORY COUNCIL RECOMMENDATIONS*

At the outset, I want to sincerely commend and thank the members of the Advisory Council for their hard work in developing their report and recommendations. As you will note, they took their task very seriously and, with little time and resources, were able to provide both the executive and legislative branch with an extremely valuable assessment of our most pressing school funding issues. I believe the Council's report will serve us both very well as we move ahead into the next phase of the HB 625 study process.

With that "next phase" in mind, I do want to emphasize the "preliminary" character of this report. The report is preliminary in several respects -- first and foremost, because that is what the HB 625 study process contemplates. Second, it is "preliminary" in that I have not yet had the opportunity to engage in my own complete review and analysis of the items and recommendations contained in the Advisory Council's report. That further review and analysis, coupled with the independent analysis of and comments solicited by the Interim Committee, will form the basis for the "final report" that I will issue at the conclusion of the entire process.

Third, and not the least important, further work remains to be performed in terms of quantifying the fiscal impacts of the various recommendations put forth by the Advisory Council. As you will note from the Council's report, the results of that more complete fiscal analysis will be completed and provided to both my office and the Interim Committee by February 1, 2002.

That having been said, however, I have had the opportunity to at least briefly review the Council's report and recommendations and would like to share my initial observations with the Interim Committee as you move forward with the second stage of this study process. I've highlighted the Council's recommendations below, together with my initial observations.

- ***Create a countywide levy to fund the property tax portion of the BASE budgets of all school districts in a county***

Based on my review, this recommendation appears to hold substantial promise in terms of improving the taxpayer equity side of the school funding situation. While there are a range of possible options here and technical issues that would presumably need to be addressed, I am very interested in seeing this general concept pursued further.

- ***Expand county retirement levy to include budget authority for health insurance***

As I understand it, this recommendation has two components -- (1) the expansion of a currently existing permissive tax levy (i.e., retirement) to fund the cost of providing health insurance to school district employees and (2) the establishment of a statewide insurance pool for school district employees. The issue of rising health insurance costs is not unique to school districts -- it is an issue facing all Montanans, whether employee, employer, government or private sector. In fact, the Legislature is currently engaged in a separate interim study under Senate Joint Resolution 22 to review the issue of rising health insurance and health care costs.

With that in mind, the concept of a statewide insurance pool for school district employees would appear to hold promise in terms of potential cost savings and efficiencies of scale. I intend to look at this particular angle more closely and would encourage the Interim Committee to do likewise. In terms of an expanded permissive levy to fund insurance costs in each district, however, it will be difficult for me to support the type of local property tax increase that the proposal appears to entail. I will review this proposal more closely upon receipt of the further analysis concerning the fiscal impacts of the Council's recommendations.

- ***Use a weighted GTB calculation for both the countywide BASE budget levy and the county retirement/insurance levy***

Based on my initial review, this is a recommendation that appears to make sense in terms of both simplicity and from a tax equalization standpoint. Subject to my concerns over the expansion of the existing retirement levy as noted above, I would encourage the Interim Committee to look at this issue more closely and, if possible, secure additional analysis to ensure that the actual effects of using weighted GTB would in fact be as contemplated by the Council.

- ***Adopt the transportation funding structure proposed in HB 163 from the 2001 Legislative Session***

Again, based on my initial review, this is also a recommendation that appears to make sense in terms of simplifying our method of funding school transportation. I intend to look more closely at this proposal and I look forward to the additional input that will be gathered by the Interim Committee during the second phase of the study process.

- ***Calculate the average number belonging (ANB) for a district by using average enrollment over a 3-year period.***

It is clear that, in terms of a mechanism to address the issue of declining enrollments, the Council felt this was the most viable approach. At this point, I would agree that the concept of enrollment averaging holds promise as a means of improving the ability of our funding formula to deal with this problem. While it is too early to make any judgment at this point as to the fiscal viability of this mechanism in the next biennium, I intend to look more closely at this and would ask the Interim Committee to engage in further review, discussion

and analysis as well. In particular, the Council has specifically recommended further analysis of the impacts of removing the existing "soft caps" in conjunction with an averaging mechanism.

- ***Provide an annual inflator tied to the CPI for the basic entitlement, per-ANB entitlement and special education funding.***

I agree with the proposition that a school funding mechanism should track with and adjust for the cost of providing educational services, whether those costs may be rising or falling. In fact, I can assure you that in every case where I have the opportunity to develop my own budget, I am committed to doing everything I can to provide formula increases to education that reflect rising costs. I have concerns, however, over the effect that a fixed "inflator" would have on the state's ability to deal with rising/falling revenues and costs in the other areas where it provides necessary and critical services. While I encourage the Interim Committee to engage in further analysis and discussion of this proposal, and to solicit further comment, I do not anticipate being able to unconditionally support this particular recommendation.

- ***Modify portions of the HB 124 block grant structure***

As the Interim Committee is aware, HB 124 provided that, if an interim study of school funding was conducted, the study needed to include recommendations for retaining or repealing the block grants contained in that bill. As I understand it, the Council has recommended revisions to the manner in which at least certain portions of the HB 124 block grants are distributed to schools. In particular, the Council is recommending revisions in that portion of the block grant presently going to debt service, the portion presently going to transportation, and the other non-general fund portions (i.e., building reserve, bus depreciation). It is my understanding that the Council is recommending that the general fund component of the HB 124 block grants be retained in its present form and be applied to reduce the countywide BASE levy recommended as item # 1 above.

Based on my review of the Council's work here, it does appear that we have various options and opportunities for altering the current structure of the HB 124 revenues. As with the other recommendations made by the Council, I intend to look more closely at this particular issue and would ask the Interim Committee to do likewise as it moves forward with this study process.

D. COUNCIL RECOMMENDATIONS -- AREAS FOR FURTHER STUDY

As you'll note in the attached report, the Council has also recommended further study in three particular areas. One of those areas involves the research of a "working group" on the issue of combining existing funds, particularly the creation of a single "Capital Projects Fund". While I have only briefly reviewed the report of the separate "working group" (which is attached to the Council's report), I fully agree with the Council that this issue warrants further study and I would very much welcome the Interim Committee's input and assistance in that regard.

A second area recommended by the Council for further study concerns the issues of teacher recruitment and retention. More specifically, the Council believes that the recommendations of Governor Racicot's 2000 Task Force on Teacher Shortages/Teacher Salaries continue to have merit. I am in full agreement with that assessment and recognize that we are beginning to face serious issues in recruitment and retention. While it is simply too soon to judge our fiscal situation for the next biennium, I have every hope of being able to further pursue some of the Task Force recommendations next session.

Finally, the third area recommended by the Council for further study concerns the concept of engaging in a more extensive study of the "adequacy" of funding for Montana's K-12 school system. Again, I am in full agreement that the idea of a truly comprehensive "study" of the manner in which we both provide and fund our system of public schools here in Montana warrants further and serious consideration. I would strongly encourage the Interim Committee to engage in further dialogue concerning this issue. As with the Council, I believe that such a study must actively involve all Montanans -- parents, teachers, school officials, taxpayers, business people, as well as legislative and executive branch officials.

E. CONCLUSION

Again, I want to sincerely thank both the Council and the staff that supported them for all of their hard work. As the Committee is aware, the study process under HB 625 involves a unique collaboration between the executive branch and the legislative branch. In that regard, it is my understanding that the State Superintendent will also be providing her own valuable insight on the Council's work to both my office and the Interim Committee. In the meantime, I will continue to review and assess the work that the Advisory Council has done and I look forward to receiving valuable input and recommendations from the Interim Committee as this process moves forward.